International Economics, 8e (Krugman)
Chapter 7  International Factor Movements

7.1 International Labor Mobility

1) Which of the following differs in its essential analytical framework?
   A) international trade in goods
   B) international conflict resolution
   C) international trade in services
   D) international trade in factors of production
   E) international borrowing and lending
   Answer: B
   Question Status: Previous Edition

2) The slope of the production function measures
   A) the physical increase in output as country grows.
   B) the dollar-value increase in output as a country grows.
   C) the increase in number of workers as immigration proceeds.
   D) the marginal product of labor.
   E) the marginal product of capital.
   Answer: D
   Question Status: Previous Edition

3) International free labor mobility will under all circumstances
   A) increase total world output.
   B) improve the economic welfare of everyone.
   C) improve the economic welfare of workers everywhere.
   D) improve the economic welfare of landlords (or capital owners) everywhere.
   E) None of the above.
   Answer: E
   Question Status: Previous Edition

4) If the world attained a perfect Heckscher-Ohlin model equilibrium with trade, then
   A) workers in the labor abundant country would migrate to the capital abundant country.
   B) workers in the labor abundant country would wish to migrate to the capital abundant country.
   C) workers in the labor abundant country would have no desire to migrate to the capital abundant country.
   D) workers in the capital abundant country would wish to migrate to the labor abundant country.
   E) workers in the capital abundant country would migrate to the labor abundant country.
   Answer: C
   Question Status: Previous Edition

5) During the mass migration period of late 19th–early 20th centuries,
   A) wages rose in the origin countries and fell in the destination countries.
   B) wages fell in the origin countries and rose in the destination countries.
   C) wages generally rose faster in the origin countries.
   D) wages generally rose faster in the destination countries.
   E) wages generally fell faster in the origin countries.
   Answer: C
   Question Status: Previous Edition
6) International labor mobility
   A) leads to wage convergence by raising wages in destination country and lowering in source country.
   B) is in accordance with the specific factors model.
   C) is in accordance with the Heckscher-Ohlin factor proportions model.
   D) leads to wage convergence by raising wages in source and lowering them in destination country.
   E) is in accordance with scale economy model.
Answer: D
Question Status: Previous Edition

7) In theory, labor mobility is
   A) a complete complement to trade flows.
   B) a partial complement to trade flows.
   C) a complete substitute for trade flows.
   D) a partial substitute for trade flows.
   E) None of the above.
Answer: C
Question Status: Previous Edition

8) In practice, international labor mobility is
   A) a complete complement to trade flows.
   B) a partial complement to trade flows.
   C) a complete substitute for trade flows.
   D) a partial substitute for trade flows.
   E) None of the above.
Answer: D
Question Status: Previous Edition

9) In a typical short-run production function, as labor increases
   A) the marginal product of capital decreases.
   B) the overall product of labor decreases.
   C) the average product of labor decreases.
   D) the marginal product of labor decreases.
   E) None of the above.
Answer: D
Question Status: Previous Edition

10) Using the production function model, the real wage is determined by
    A) the amount of migration.
    B) the marginal product of capital.
    C) the marginal product of labor.
    D) the rents.
    E) None of the above.
Answer: C
Question Status: New
11) If initially wages are higher in Home than in Foreign, then a movement of workers from Foreign to Home will
   A) lower the marginal product of labor in Foreign.
   B) raise total product in Foreign.
   C) raise the income of land owners in Foreign.
   D) raise the income of land owners in Home.
   E) None of the above.
   Answer: D
   Question Status: New

12) A redistribution of workers from low to high real wage countries will eventually result in
   A) lead to equal real wages in all countries.
   B) lead to equal income distribution between land owners and workers.
   C) lower the world’s output as a whole.
   D) a higher level of international investment and trade.
   E) None of the above.
   Answer: A
   Question Status: New

13) It has been argued that even if intra-European Union labor mobility were to be completely removed, one should not expect to observe massive, or even large reallocations of populations with the E.U. Discuss.
   Answer: Theoretically, just as completely free trade consistent with Heckscher-Ohlin model (with no complete specialization) is associated with factor price equalization; so does completely free labor mobility. It therefore follows that if intra E.U. trade flourishes, as any restraints on trade there are abolished, the economic incentive for labor mobility will be removed. Since language and cultural differences remain, we would expect populations to tend to stay where they are.
   Question Status: Previous Edition

14) It may be argued that international labor mobility and trade are substitutes one from the other. Explain.
   Answer: workers earning lower real wages will have an incentive to move to a higher-wage country. Using the Neo-Classical model framework, this means that countries with relative more labor per unit capital may be said to have a relative abundance of labor (or a comparative advantage in labor). They will therefore export their labor. Turning to the Neo-Classical trade model, we know that a country that is relatively labor abundant will export products (and enjoy comparative advantage) in products that embody relatively more labor. Hence, trade exports labor indirectly embodied in products. This allows the workers to raise their real wage instead of doing it by physically moving to the capital rich country.
   Question Status: New

15) It may be argued that, although theoretically international labor mobility and international trade may be substitutes one for the other, inductive inferences drawn from real world observations suggest that the two are actually complementary. Give an example.
   Answer: One can easily observe that sales of Irish Whiskey are relatively robust in neighborhoods with large populations of Irish descent. Alternatively, one finds sales of imported Indian foods in specialized restaurants in areas with relatively large populations of immigrants from India. Or Mexican beer in areas with large or rapidly expanding populations from Mexico. This may easily be explained by the "Home good" taste bias of populations. Along with international labor migrations come their tastes in foods as well as other products.
   Question Status: New
16) One concomitant of international labor mobility is the phenomenon known as the "brain drain." This refers to the immigration (or emigration) of the "best and brightest." Generally countries tend to encourage such immigration. Explain why. At times, countries actually encourage such "emigration." Explain why.
Answer: The answer to the first question is easy. The highly skilled workers’ marginal product is likely to be markedly higher than the average product in the host country. The host country reaps the benefits of education expended by other countries’ educational infrastructures. The answer to the second question is more difficult. An example is that during 2000, the Prime Minister of India lobbied for a change in U.S. immigration laws so as to encourage the employment of more Indian engineers and computer programmers in the U.S. The answer to this seemingly paradoxical action may be related to the observed complementarity of international labor mobility and international trade. The presence of Indian engineers in the U.S. may actually encourage the importation of Indian products and services in the computer field.

Question Status: New

17) In Home and Foreign there are two factors of production, land and labor, used to produce only one good. The land supply in each country and the technology of production are exactly the same. The marginal product of labor in each country depends on employment as follows:

<table>
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<tr>
<th>Number of Workers Employed</th>
<th>Marginal Product of Last Worker</th>
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<td>1</td>
<td>30</td>
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Initially there are 11 workers employed in Home but only 3 workers in Foreign. Find the effect of free movement of labor from the high wage to the low wage country. When such economic migration ceases, what will be the levels of production, real wages and the income of landowners in each country?
Answer: The total production in the world will increase, since the addition to production (the marginal product of labor) in the target country is larger for each worker than the loss of production (also the marginal product of workers) in the emigration country. The real wages will rise in the emigration country and fall in the immigration country. Landlord incomes will rise in the immigration country and fall in the emigration country.

Question Status: Previous Edition

18) Suppose Australia, a land (K)-abundant country and Sri–Lanka, a labor(L)-abundant country both produce labor and land intensive goods with the same technology. Following the logic of the Heckscher–Ohlin model from Chapter 4, what will be the incentive for migration once trade is established between these two countries? Now, suppose that a tariff by one country creates an incentive for labor migration. From which country to which country will the migration? Explain how you arrived at your answer.
Answer: Once trade is established, there is no longer any incentive for (economic-based) immigration, since the real wages will be equalized in both. If a tariff is established in Australia, then the price of the labor intensive good will be higher in Australia, as will be the marginal product of labor and hence the real wage of workers there. Hence, workers will immigrate from Sri–Lanka to Australia until the two domestic prices are equalized.

Question Status: Previous Edition
7.2 International Borrowing and Lending

1) International borrowing and lending may be interpreted as one form of
   A) intermediate trade.
   B) inter-temporal trade.
   C) trade in services.
   D) unrequited international transfers.
   E) None of the above.
Answer: B

2) If one observes that Japan was traditionally a net foreign lender, one could conclude that relative to its international trade and financial partners
   A) Japan’s inter-temporal production possibilities are biased toward future consumption.
   B) Japan's inter-temporal production possibilities are larger than that of the other countries.
   C) Japan's inter-temporal production possibilities are biased toward present consumption.
   D) Japan's inter-temporal production possibilities are not biased.
   E) None of the above.
Answer: C

3) Rapidly growing developing countries tend to be borrowers on the international capital markets. From this information we may surmise that they have a comparative advantage in
   A) capital goods.
   B) future income.
   C) disposable income.
   D) consumer goods.
   E) present income.
Answer: B

4) It may be argued that theoretically, international capital movements
   A) tend to hurt the donor countries.
   B) tend to hurt the recipient countries.
   C) tend to hurt labor in donor countries.
   D) tend to hurt labor in recipient countries.
   E) None of the above.
Answer: C

5) The purchase by Germany’s Daimler-Benz of America’s Chrysler corporation is generally viewed as
   A) direct foreign investment typical of trends in the 1980s.
   B) a capital outflow from the United States, since Daimler-Benz "milked" the assets of Chrysler.
   C) a major success story of globalization.
   D) an example of international vertical integration.
   E) None of the above.
Answer: E
6) American labor unions accuse U.S. multinational corporations of all except which?
   A) They enjoy unfair advantages in taxation.
   B) They export jobs by shifting technology overseas.
   C) They export jobs by shifting investment overseas.
   D) They operate at output levels where scale economies occur.
   E) None of the above.
Answer: D
Question Status: Previous Edition

7) International labor mobility is different from capital mobility in that
   A) the first is a human and family decision, whereas the latter is not.
   B) the first is a real transfer from one country to the other, whereas the latter is a financial transaction.
   C) the first is motivated by the desire to receive a higher economic return, whereas the latter is merely an inter-bank transfer.
   D) The first results in equalization of real factor returns, whereas the latter does not.
   E) None of the above.
Answer: B
Question Status: New

7.3 Direct Foreign Investment and Multinational Firms

1) The relative price of future consumption is
   A) the interest rate.
   B) unknown at any given time.
   C) the real interest rate.
   D) the relative interest rate.
   E) None of the above.
Answer: C
Question Status: Previous Edition

2) A country that has a comparative advantage in future production of consumption goods
   A) will tend to be an international borrower.
   B) will tend to have low real interest rates.
   C) will tend to be an international investor or lender.
   D) will tend to have good work ethics.
   E) None of the above.
Answer: A
Question Status: Previous Edition

3) A U.S. multinational corporation
   A) has a controlling share in a foreign subsidiary and is not itself foreign controlled.
   B) is foreign controlled and has no controlling share in a foreign company.
   C) has a controlling share in a foreign subsidiary and may itself be foreign controlled by a foreign company.
   D) is a U.S. company whose major markets are outside the United States.
   E) None of the above.
Answer: C
Question Status: Previous Edition
4) Why a good is produced in two different countries is known as the question of
   A) internalization.
   B) vertical integration.
   C) exploitation.
   D) location.
   E) None of the above.
   Answer: D
   Question Status: Previous Edition

5) The home location of most of the world’s large multinational companies is
   A) North America and Europe.
   B) North America and Asia.
   C) Europe and South America.
   D) Europe and Asia.
   E) None of the above.
   Answer: A
   Question Status: Previous Edition

6) Which of the following best refers to the outright construction or purchase abroad of productive facilities by
domestic residents?
   A) foreign direct investment
   B) portfolio Investment
   C) short-term capital investment.
   D) long-term capital investment
   E) None of the above.
   Answer: A
   Question Status: Previous Edition

7) Most direct investment in the United States has come from
   A) Japan.
   B) Canada.
   C) Western Europe.
   D) South America.
   E) Asia.
   Answer: C
   Question Status: Previous Edition

8) Most U.S. direct foreign investment occurs in
   A) communications.
   B) agriculture.
   C) petroleum.
   D) manufacturing.
   E) None of the above.
   Answer: D
   Question Status: Previous Edition
9) Most foreign direct investment in the United States occurs in
   A) communications.
   B) agriculture.
   C) petroleum.
   D) manufacturing.
   E) None of the above.
Answer: D
Question Status: Previous Edition

10) Trade analysis involving multinational corporations differs from our conventional trade analysis because multinational corporation analysis involves
    A) absolute cost differentials rather than comparative cost differentials.
    B) the international movement of factor inputs as well as that of finished goods.
    C) purely competitive markets rather than imperfectly competitive markets.
    D) portfolio investments rather than direct foreign investment.
    E) None of the above.
Answer: B
Question Status: Previous Edition

11) Direct foreign investment may take any of the following forms except
    A) investors buying bonds of an existing firm overseas.
    B) the creation of a wholly owned business overseas.
    C) the takeover of an existing company overseas.
    D) the construction of a manufacturing plant overseas.
    E) None of the above.
Answer: A
Question Status: Previous Edition

12) Which of the following could logically explain why foreign direct investment might be attracted to the United States?
    A) U.S. wage rates exceeding the productivity of U.S. labor
    B) U.S. price ceilings that hold down the price of energy
    C) especially high price/earning ratios associated with the stock of U.S. firms
    D) anticipations of future reductions in U.S. non-tariff barriers
    E) None of the above.
Answer: B
Question Status: Previous Edition

13) Multinational corporations
    A) increase the transfer of technology between nations.
    B) make it harder for nations to foster activities of comparative advantage.
    C) always enjoy political harmony in host countries in which their subsidiaries operate.
    D) require governmental subsidies in order to conduct worldwide operations.
    E) None of the above.
Answer: A
Question Status: Previous Edition
14) American labor unions have recently maintained that U.S. multinational corporations have been
   A) exporting American jobs by investing overseas.
   B) exporting American jobs by keeping investment in the United States.
   C) importing cheap foreign labor by shifting U.S. investment overseas.
   D) importing cheap foreign workers by keeping U.S. investment at home.
   E) None of the above.
Answer: A
Question Status: Previous Edition

15) Multinational corporations
   A) always produce primary goods.
   B) always produce manufactured goods.
   C) always produce services.
   D) may produce primary or manufactured goods.
   E) None of the above.
Answer: D
Question Status: Previous Edition

16) Transactions between branches of the same multinational corporations account for ________ of U.S. imports.
   A) one quarter
   B) one third
   C) one half
   D) three quarters
   E) all
Answer: C
Question Status: Previous Edition

17) The shift of labor-intensive assembly operations from the United States to Mexican maquiladora may be best
    explained in terms of a theory of
    A) location.
    B) vertical integration.
    C) horizontal integration.
    D) internalization.
    E) None of the above.
Answer: A
Question Status: Previous Edition

18) When comparing the United States to the United Kingdom, between 1985 and 1990, the relative growth of
    foreign-owned firms in manufacturing
    A) grew faster in the U.K., whose proportion of foreign-owned firms is larger.
    B) grew faster in the U.S., whose proportion of foreign-owned firms is larger.
    C) grew faster in the U.S., whose proportion of foreign-owned firms is smaller.
    D) grew faster in the U.K., whose proportion of foreign-owned firms is smaller.
    E) None of the above.
Answer: C
Question Status: Previous Edition

7.4 Appendix 1 to Chapter 7: Finding Total Output from the Marginal Product Curve

1) There are no questions for this section.
   Answer: TRUE
   Question Status: New
7.5 Appendix 2 to Chapter 7: More on Intertemporal Trade

1) There are no questions for this section.
   Answer: TRUE
   Question Status: New